

THE SYNERGY BETWEEN THE PROFESSIONAL JUDGMENT, CREATIVITY IN ACCOUNTING AND ACCOUNTING POLICIES

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Abstract: *This paper aims at studying the relationship between the professional judgment, creativity in accounting and the accounting policies transposed in a company's business following the general strategy and its impact on performance. The harmonious application of the three concepts determines the attainment of the objectives considered by the company management. The study is based on the comparative approach of the results by analysing the accounting treatments stipulated by the applicable laws, which become accounting policies in the architecture of the company policies manual.*

Key words: *professional judgment, creativity, accounting policies, performance*

1. Introduction

The definition of the concept of creativity - the ability to create, to produce values (dexonline.ro) reveals the positive meaning that should cross its meaning, in harmony with the freedom of interpretation and choice, favoured by the moment of an action. Creativity in accounting is connected to the accounting professional's reflecting on the transactions and events taking place in a company's business in order to add value. The balance in all its actions and the permanent anchoring in the target pursued determines the certainty of trust and reliability in the ethics and integrity of the actions put into practice.

The added value can be the result of accounting constructions that create sufficiency for both companies and the state. Taking into consideration the intertwining of fiscal and accounting policies, constructions must be developed to represent economic transactions, so as to equitably meet the requirements of the owners, but also of the state. Basically, the shareholders want a shelter for their wealth, and the state a wealth from which it should cover budget consumption. In order to create a favourable climate for the two categories of users, we must emphasize professional judgment and accounting policies. Professional judgment considers a logical projection to achieve the

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targeted goal, but taking into account the accounting policies developed according to “ethics, morality and even religion” (Afrăsinei, 2016). The accounting policies, principles and procedures must meet the general objective of accounting to provide a true and fair view of the entity's financial position and performance (Drumea, 2004). The concept of true image, in every professional's view, contributes to the presentation of accounting information in financial statements, the foundation being the organization of accounting within the limits of ethical professional behaviour, high morality, having as pillars supporting reality, accuracy, relevance, sincerity, continuity or permanence (Horomnea, 2013). Taking into account the factors that may interfere with the dynamics of the entity's activity, pressure is created on the critical thinking of the professional who should reduce the threat situations towards objectivity and independence.

Thus, creative accounting methods and techniques have to be harmonized with ethics and integrity in the interpretation and implementation of accounting principles and policies. Their adaptation to the variety of phenomena and transactions in the life of an organization is done professionally, skilfully and using critical thinking. Critical thinking is the careful analysis of the issuance of an appropriate reasoning and is substantiated by the in-depth exploration of the accounting researcher in order to obtain valid results. Last but not least, it can be asserted that critical thinking is creative. Consequently, to develop and acquire critical thinking, through exercise, the accounting professional goes through all the levels: knowledge, understanding, application, analysis, synthesis and evaluation (Andone et al., 2013). Given these circumstances, the set of actions undertaken in its business according to a working methodology, entails the presentation of the correlation with the reality under study. The variety of approaches is all the more innovative as the training and professional experience are more widely exploited.

The professional judgment must be designed to respond to all the accounting problems by: (Andone et al., 2013):

- Analysis – which requires dividing the phenomenon into components and their separate study;
- Synthesis – observing the relationships between the components and the influence of each of them as regards the problem considered;
- Critical evaluation of the conclusions.

The grounds of each logical construction, the judgment of the professional gives rise to creative projections that articulate the applicable accounting regulatory framework.

In situations where its provisions are violated, it can be considered an intrusion into the destructive side of creativity. Similarly, the professional judgment is defined by the International Auditing and Assurance Standards Board (www.codetic-standardeinternationale.ro), namely: the application of knowledge and experience according to accounting and ethical standards, accounting principles and policies.

2. Research Methodology

The work aims at making a study of the impact of designing accounting policies on the company's performance. The main objectives considered are:

- Identifying the relationship professional judgment – creativity – accounting policies –

for the accounting treatments applicable to tangible assets;

- Identifying the accounting policies applicable to the tangible assets of the companies studied;
- Quantifying the impact of the choice of the analysed accounting policies on the company's performance;
- Comparative presentation of the obtained results.

The research includes the study of the specialised literature, verification, comparison, questionnaires, investigation, testing and case study.

3. Research Results

The relationship between professional reasoning - creativity-accounting policies - is outlined in a unique architecture within any company, resulting in elements of managerial strategy. Therefore, the accounting policies approved by the administrators become instruments of control and management of the economic operations carried out by the company, and source of the information construction the shareholders need to substantiate the decisions. From the moment the decisions are made, they become mandatory - the internal "legal framework" for the company staff in general, and, in particular, for the staff with executive attributions in the financial-accounting field.

Thus, through the accounting policies, the company can establish the accounting treatment of the expenses after the tangible assets. Taking into consideration that the manual of accounting policies is constantly updated (changes being made at the initiative of the company with justification in the explanatory notes) and that the manager is liable for its existence and approval, depending on the strategic objectives of the company, decisions to capitalize subsequent expenses or their consideration as expenses of the period and recognition in the income statement may be made.

In order to quantify the impact of the accounting policies on the entity's performance, the case study analyses the situation of the entity X SA whose business field is distribution and that owns a utility vehicle in the car park with the accounting registration value of 180,000 lei. The utility vehicle term of use is 5 years, and the depreciation method is linear. At the beginning of year 3 of operation, the truck requires repairs amounting to 40,000 lei. According to accounting policies, repair expenses are considered expenses of the period, but the company's management wants an analysis of the capitalization of expenses and the reduction of the remaining period of use by one year (i.e. from 3 years to 2 years).

Knowing that the level of other operating expenses in year 1, 2 and 3 is 50,000 lei and in year 4 it is estimated at 60,000 lei, and the level of income in year 1 and 2 is 70,000 lei, in year 3 it is 150,000 lei and in year 4 it is estimated at 170,000 lei, the analysis is performed according to the management requirements.

Case A. The case of the capitalization of the repair expenses amounting to 40,000 lei and the decrease of the remaining duration from 3 to 2 years

1ST YEAR

1. *The purchase of the truck from the suppliers is registered on the grounds of the invoice with 19% VAT*

%	=	404 „Suppliers of non-current assets,,	214,200
2133 „Motors vehicles”			180,000
4426 ”Input Value added tax”			34,200

2. *We determine and we register the depreciation of the means of transport through the linear method*

Am_i (depreciation) = V_i (input value)/DU (usage time) = 180,000 lei/5 years = 36,000 lei

6811 ”Depreciation of non current assets”	=	2813 ”Depreciation of plant and machinery...”	36,000
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3. *We register the closing of the income and expenses account in the first year*

121 ”Profit (loss) for the period”	=	%	86,000
		6811 ”Depreciation of non current assets”	36,000
		6xx ”Other operating expenses”	50,000

7xx ”Revenue accounts”	=	121 ”Profit (loss) for the period”	70,000
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R (Loss for the period) = 70,000 lei - 86,000 lei = (16,000) lei

2nd YEAR – records a result identical to the 1st year, loss 16,000 lei.

3rd YEAR

1. *We record the capitalization of repair expenses*

%	=	404 „Suppliers of non-current assets,,	47,600
2133 „Motors vehicles”			40,000
4426 ”Input Value added tax”			7,600

2. *There is a recalculation of the depreciation of the accounting after capitalization and the decrease of the remaining duration from 3 years to 2 years*

Am_i (Depreciation of non current assets) = V_r (Input value)/DR (remaining time) = $[(180,000 - 72,000) + 40,000] / 2 = 148,000 / 2 = 74,000$ lei

6811 ”Depreciation of non current assets”	=	2813 ”Depreciation of plant and machinery...”	74,000
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Determining the difference between accounting depreciation and tax depreciation

$Am_{if} = VR/DR = 148,000/3 = 49,333$ lei

Non-deductible expenses = 74,000 - 49,333 = 24,667 lei

3. *We register the closing of the income and expenses account in the third year*

121 ”Profit (loss) for the period”	=	%	124,000
		6811 ”Depreciation of non current assets”	49,333

6811 "Depreciation of non current assets" non-deductible expenses		24,667
6xx "Other operating expenses"		50,000
7xx "Revenue accounts"	=	121 "Profit (loss) for the period" 150,000
R (Profit (loss) for the period) = Income-Total expenses + Non-deductible expenses=		
=150,000-124,000+24,667-(16,000+16,000)= 18,667 lei		
Income tax = 18,667*16%= 2,987 lei		

4. *Income tax registration*

691 "Income tax"	=	441 "Income tax"	2,987
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5. *Closing income tax expenses*

121 "Profit (loss) for the period"	=	691 "Income tax"	2,987
R (Profit (loss) for the period) = 150,000-124,000-2,987 = 23,013 lei			

4th YEAR

1. *Depreciation is recorded in the fourth year*

6811 "Depreciation of non current assets"	=	2813 "Depreciation of plant and machinery..."	74,000
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2. *We register the closing of the income and expenses account in the fourth year*

121 "Profit (loss) for the period"	=	%	134,000
6811 "Depreciation of non current assets"			49,333
6811 "Depreciation of non current assets" non-deductible expenses			24,667
6xx "Other operating expenses"			60,000

7xx "Revenue accounts"	=	121 "Profit (loss) for the period"	170,000
R (Profit (loss) for taxation) = Income-Total expenses + Non-deductible expenses =			
170,000-134,000+24,667= 60,667 lei			
Income tax = 60,667 lei * 16%= 9,706 lei			

3. *Income tax registration*

691 "Income tax"	=	441 "Income tax"	9,706
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4. *Closing income tax expenses*

121 "Profit (loss) for the period"	=	691 "Income tax"	9,706
R (Profit (loss) for the period) = 170,000-134,000-9,706 = 26,294 lei			

Case B. Recording the expenses with repairs in the amount of 40,000 lei in the current expenses of the period and decreasing the remaining duration from 3 years to 2 years

1ST YEAR

1. *The purchase of the truck from the suppliers is registered on the grounds of the invoice with 19% VAT*

%	=	404 "Suppliers of non-current assets"	214,200
2133 "Motors vehicles"			180,000
4426 "Input Value added tax"			34,200

2. *We determine and we register the depreciation of the means of transport through the linear method*

$$Am_1 = V_i/DU = 180,000/5 = 36,000 \text{ lei}$$

6811 "Depreciation of non current assets"	=	2813 "Depreciation of plant and machinery..."	36,000
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3. *We register the closing of the income and expenses account in the first year*

121 "Profit (loss) for the period"	=	%	86,000
		6811 "Depreciation of non current assets"	36,000
		6xx "Other operating expenses"	50,000

7xx "Revenue accounts"	=	121 "Profit (loss) for the period"	70,000
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$$R (\text{Profit (loss) for the period}) = 70,000 - 86,000 = (16,000) \text{ lei}$$

2nd YEAR – records a result identical to 1st year, loss 16,000 lei.

3rd YEAR

1. *The costs of repairs related to the truck are recorded at the expense of current expenses*

%	=	401 "Suppliers"	47,600
628 "Other third party services"			40,000
4426 "Input Value added tax"			7,600

2. *We determine and we register the depreciation of the means of transport through the linear method*

$$Am_1 = V_r/DR = (180,000 - 72,000)/2 = 54,000 \text{ lei}$$

6811 "Depreciation of non current assets"	=	2813 "Depreciation of plant and machinery..."	54,000
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3. *We register the closing of the income and expenses account in the third year*

121 "Profit (loss) for the period"	=	%	144,000
		6811 "Depreciation of non current assets"	36,000
		6811 "Depreciation of non current assets"	18,000
		non-deductible expenses	
		628 "Other third party services"	40,000
		6xx "Other operating expenses"	50,000

7xx "Revenue accounts" = 121 "Profit (loss) for the period" 150,000
R (Profit (loss) for the period) = 150,000-144,000+18,000-(16,000+8,000) =0 lei

Income tax 0*16% = 0 lei
 691 "Income tax" = 441 "Income tax" 0
R (Profit (loss) for the period) = 150,000-144,000-0 = 6,000 lei

4th YEAR

1. We determine and we register the depreciation of the means of transport through the linear method

6811 "Depreciation of non current assets" = 2813 "Depreciation of plant and machinery..." 54,000

2. We register the closing of the income and expenses account in the fourth year

121 "Profit (loss) for the period" = % 114,000
 6811 "Depreciation of non current assets" 36,000
 6811 "Depreciation of non current assets" non-deductible expenses 18,000
 6xx "Other operating expenses" 60,000

7xx "Revenue accounts" = 121 "Profit (loss) for the period" 170,000
R (Profit (loss) for the period) = 170,000-114,000+18,000 – 8,000 (loss not recovered in the third year)= 66,000 lei

3. Income tax 66000*16% = 10560 lei

691 "Income tax" = 441 "Income tax" 10,560
 121 "Profit (loss) for the period" = 691 "Income tax" 10,560
R (Profit (loss) for the period) = 170,000-114,000-10,560 = 45,440 lei

Results summary

Table 1

Case		1 ST YEAR	2 nd YEAR	3 rd YEAR	4 th YEAR	Total
A	"Non-deductible expenses"	0	0	24,667	24,667	49,334
	"Income tax"	0	0	2,987	9,706	12,693
	"Profit (loss) for the period"	(16,000)	(16,000)	23,013	26,294	17,307
Case		1 ST YEAR	2 nd YEAR	3 rd YEAR	4 th YEAR	Total
B	"Non-deductible expenses"	0	0	18,000	18,000	36,000
	"Income tax"	0	0	0	10,560	10,560
	"Profit (loss) for the period"	(16,000)	(16,000)	6,000	45,440	19,440

Comparing the data reveals that the capitalization of the subsequent expenses determines a profit lower by 2,133 lei than in the case the repair expenses are considered expenses of the period. This amount is transferred to the profit tax, and more is collected from the state budget. Therefore, the accounting treatment applied in the company meets the strategic requirements and needs of the company.

4. Conclusion

The elaboration of the accounting policies transposed to a company, considering the relation reasoning-creative accounting-accounting policies and principles must start from the general strategy of the company that has an applicable common path.

A first stage is to identify the problem under analysis, which takes into account the extent to which the company is involved in the business environment.

The setting of objectives is done depending on the connection with the achievement of certain results of performance or financial position. The next step is to establish the type of strategy adopted to achieve the objectives. Regarding the choice of strategy, the positioning of the entity in relation to the characteristics of the market on which it operates is considered. Therefore, in relation to the market dynamics, the following can be established: the strategy to grow the business, the strategy to maintain the business, the strategy to restrict the business.

The other characteristics, such as: market structure, market requirements and the level of competition are elements that any manager uses to achieve the proposed goal.

In order to succeed on the market, the entities resort to different strategies, such as quality strategies. The strategies in the field of quality have the mission to deal with the competition, and therefore are competitive strategies (Neacsu, 2020).

The decision to adopt a strategy shall also take into consideration the financial resources available to the entity and which may be allocated to those actions. As it can be seen from the study performed, the chain of factors to be analysed must be in a balance that ensures the success of the results (Anton, 2013).

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